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Virginia Offers A Horse Trade In Tax Dispute

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Virginia has offered the Federal Government a deal. It will quit levying income taxes on persons who work in Virginia but live out of the State if the Federal Government will help collect Virginia taxes.

The Virginia offer was disclosed at a meeting yesterday called by Sen. Daniel B. Brewster (D-Md.) and attended by Maryland and District tax officials and representatives of the Defense Department and the CIA.

Virginia recently abolished a reciprocity agreement under which it refrained from taxing residents of Maryland and the District who work in Virginia. Maryland and the District in turn did not tax Virginia residents who work in Maryland or the District.

Virginia Would Gain

Virginia stands to gain additional revenues by this action. Maryland and the District have higher real estate taxes than much of Virginia and both have sales tax. But Virginia has a higher income tax rate in the upper income brackets.

What the new law means is that all persons working in Virginia and living in Maryland and the District must file a Virginia income tax return as well as one in the jurisdiction in which they live.

If the Virginia tax is higher than the tax where they live, they must pay Virginia the difference.

The Federal Government is concerned because of the large number of Maryland and District residents who work at the Pentagon and the CIA's Langley headquarters.

Deputy Secretary of Defense Roswell L. Gilpatric and Director John A. McCone have written to Virginia Gov. S. Harrison pointing out the morale of employees has been affected and it will now be harder to recruit employees.

Tax Chief's Offer

Virginia State Tax Commissioner C. H. Morrisett replied that Virginia will consider restoring reciprocity if the Federal Government will withhold state income taxes from Virginia residents working outside the State. At present, it collects the Virginia withholding tax only on Virginia residents working in Virginia.

Richard H. Lansdale, assistant general counsel of the CIA, called the Morrisett offer "an outrageous horse trade." Since Virginia is having difficulty collecting its taxes from Virginians working outside the State, it wants to collect from non-Virginians working there, he said.

Stephen Jackson, a Defense Department special assistant, estimated that 3000 Defense employees will be liable to pay additional taxes to Virginia giving the State about \$160,000 in income. He said this was "peanuts" to what Virginia would collect if taxes were withheld on Virginia residents working in Federal installations in the District and Maryland.

Brewster proposed that Maryland Gov. J. Millard Tawes try to work out an agreement with the Virginia Governor. In the meantime, he said, the Maryland delegation in Congress will ask the Department of Justice and the Treasury Department to suggest remedial legislation.

After the meeting, Rep. Charles McC. Mathias (R-Md.) issued a statement in which he said the Virginia tax "results in a minimum of revenue for Virginia, but produces a maximum of ill will."

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